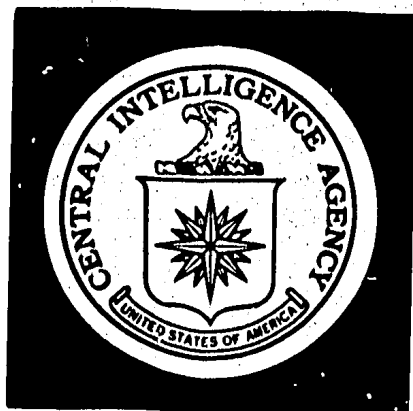


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DIRECTORATE OF  
INTELLIGENCE

# Intelligence Memorandum

*Communist China's Trade With The Industrial West In 1969  
And Prospects For 1970*

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CENTRAL INTELLIGENCE AGENCY  
Directorate of Intelligence  
July 1970

INTELLIGENCE MEMORANDUM

Communist China's Trade  
With The Industrial West In 1969  
And Prospects For 1970

Introduction

Roughly two-thirds of Communist China's trade with the Industrial West represents imports that are highly important to China's industry and agriculture. These imports include specialized equipment and materials crucial to China's military development programs. This memorandum examines the pattern of Chinese imports and exports during 1969 to determine changes in the level, direction, and commodity composition of China's trade with the Industrial West. An attempt is also made to project China's 1970 trade with the Industrial West on the basis of early returns from China's trading partners, contract information, and other current reporting.

General

1. China's trade with the Industrial West in 1969 recovered from the downturn that occurred in 1968, rising nearly 4% from \$1,870 million to \$1,940 million. A 12% spurt in exports from \$620 million to \$695 million accounted for the growth in trade; imports remained at roughly the same level as in 1968. China's trade with the Industrial

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West since 1966, including tentative projections for 1970, is shown in the following tabulation:

	Million US \$				
	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>
<i>Turnover</i>	1,845	1,980	1,870	1,940	2,150
Imports	1,140	1,345	1,250	1,245	1,400
Exports	705	635	620	695	750
<i>Balance</i>	-435	-710	-630	-550	-650

2. Trade with the Industrial West (see Table 1) accounted for about 50% of China's total trade in 1968 and probably accounted for the same share in 1969. The developed countries provided more than two-thirds of China's total imports and purchased nearly one-third of its total exports.

3. Continued improvement in the performance of the domestic economy was the prime force leading to renewed growth in China's trade with the Industrial West. A more favorable political environment also made trade relations much easier, especially with the United Kingdom. And economic factors continue to be more important than political considerations in China's trade relations with Japan.

#### Composition of Imports

4. China obtains virtually all of its grain and chemical fertilizer imports, as well as more than 90% of its imports of steel and nonferrous metals, from the Industrial West. Grain and fertilizer accounted for nearly 40% of China's imports from the Industrial West in 1969, while steel purchases constituted 20% of the total (see Table 2). Machinery and equipment imports dropped from \$135 million to \$110 million. Purchases of nonferrous metals soared nearly 70% from \$115 million to \$195 million. Platinum and copper accounted for more than four-fifths of China's purchases of nonferrous metals. Purchases of industrial diamonds increased from about \$20 million in 1968 to more than \$25 million in 1969. With purchases well beyond current needs, some portion of these strategic commodities is being added to China's stockpiles.

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5. China's grain purchases in 1969 were scheduled to rise, but actual imports fell below the previous year's level as France delivered only two-fifths of its scheduled amount. Deliveries from France were carried over into early 1970, but no new contract has yet been announced. New contracts with both Canada and Australia call for an increase of about 10% in China's grain imports in 1970. China's fertilizer purchases remained at about \$200 million in 1969. Japan's share grew 10% while deliveries from West European suppliers dropped slightly below the level of 1968.

Composition of Exports

6. The composition of China's exports to the Industrial West was dominated by its traditional products. Exports of crude materials jumped 21% from \$280 million to \$340 million (see Table 3), and rose in relative terms from 45% to 49% of total exports. Foodstuff exports, in contrast, declined from \$135 million to \$115 million, or from 22% to 17% of exports; larger exports of meat and fish products to Western Europe were not sufficient to offset the curtailment of Japan's purchases of Chinese rice. Textile fibers and crude animal materials, such as hides, skins, and bristles, were primarily responsible for the rise in exports of crude materials. China also expanded its exports of manufactured goods almost 10% in 1969. Textile yarns and fabrics, as well as clothing, led the expansion in this category of China's exports.

Major Trading Partners

7. Although China's total imports from the Industrial West dropped only slightly from \$1,250 million to \$1,245 million, significant changes occurred among some of its major trading partners. Imports from Western Europe dropped 9% from \$625 million to \$570 million, whereas purchases from Japan climbed 20% from \$345 million to \$415 million. Nearly all of China's major trading partners shared in its export expansion in 1969. Exports to Western Europe grew by 13% from \$335 million to \$380 million while exports to Japan rose 8% from \$222 million to \$239 million. At the same time, China expanded its sales to Canada and Australia by 20% and 25%, respectively.

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8. Imports of chemical fertilizer from Western Europe dropped from the previous year's level of \$120 million to about \$110 million, whereas purchases of chemical fertilizer from Japan rose about 9% from \$81 million to \$88 million. China's total imports of steel from the Industrial West rose slightly in 1969 from \$240 million to \$245 million, but Japan's share increased from about \$145 million to about \$175 million while purchases from Western Europe fell from about \$95 million to about \$70 million.

9. Japan's competitive advantage over Western Europe in trade with China was also evident in the switching of purchases of machinery and equipment from Western Europe to Japan. Thus, while China's purchases of West European machinery dropped from about \$100 million to about \$60 million, imports of machinery and equipment from Japan jumped from about \$35 million to about \$50 million.

*Japan*

10. Japan consolidated its position as China's largest trading partner with a 15% jump in total turnover, from \$567 million to \$654 million. China's imports surged 20% from \$345 million to \$415 million, and exports to Japan rose almost 8% from \$222 million to \$239 million. Nearly every category of China's imports from Japan rose in 1969, especially steel, machinery, nonferrous metals, and chemical fertilizer. The much smaller increase in China's exports resulted from a drop in Japan's purchases of China's rice, which partly offset the expansion in China's exports of crude materials and manufactured goods to Japan. In addition, Japan's increasing importance as a supplier of advanced industrial products is contributing to China's growing dependence on a single supplier for some strategic goods. This increasing dependence on Japan and the continuing huge deficit in trade with Japan represent structural developments in China's trade which are likely to continue. China's demand for the products of Japanese industry, which the Chinese economy itself cannot produce, and Japan's cost advantages over its West European competitors have reinforced this contradiction of stated Chinese policy.

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*West Germany*

11. West Germany remained China's largest trading partner in Western Europe as total turnover rose slightly from \$272 million to \$280 million. Both China's imports and exports shared in the increase as West Germany continued to be an important supplier of steel, chemicals, machinery, and nonferrous metals and a market for China's exports of foodstuffs and raw materials. Imports from West Germany totaled \$202 million in 1969 while exports amounted to \$78 million. China's willingness to incur such a large deficit in trade with West Germany demonstrates the importance of the products of West Germany's modern industry to the Chinese economy and reflects the importance of economic factors in determining the direction of China's trade.

*United Kingdom*

12. The United Kingdom was the major beneficiary of China's stockpiling activities in 1969. China's imports from the United Kingdom nearly doubled from \$70 million to \$131 million as purchases of industrial diamonds climbed from about \$12 million to nearly \$25 million and purchases of nonferrous metals soared from \$25 million to about \$80 million. China's purchases of machinery from the United Kingdom, however, amounted to less than \$10 million, which is still substantially below the 1966 level of \$45 million. China's exports to the United Kingdom rose 11% from \$71 million to \$79 million. Crude materials accounted for about 40% of China's sales while manufactured goods, consisting primarily of diamonds, textiles, and leather goods, constituted about 30%. Most of the \$8 million of diamonds reported as imports by the United Kingdom were probably rejects of diamonds previously exported by the United Kingdom, thus artificially inflating total turnover between the two countries. Foodstuffs accounted for almost another 20% of China's total exports.

13. Trade with the United Kingdom thus recovered from the precipitous drop of 1968, but the composition of China's imports has undergone significant changes and future trade developments may be marked by wide fluctuations rather than steady growth. The dominance of such strategic goods as platinum, copper, and industrial diamonds in China's



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import bill could be reversed once the Chinese decide that their reserves are adequate.

*France*

14. Sino-French trade plunged 32% from \$1.70 million to \$1.15 million even though China's exports to France increased more than 25% from \$51 million to \$65 million. China's imports plummeted from \$119 million to \$50 million as deliveries of French wheat dropped from about \$40 million to about \$20 million and imports of aluminum were slashed from \$20 million to less than \$5 million. Purchases of chemicals were cut back by about one-third to less than \$10 million and imports of transportation equipment from France dropped from about \$10 million in 1968 to about \$5 million in 1969.

*Italy*

15. Trade with Italy remained at roughly the same level as in 1968, declining only slightly from \$126 million to \$125 million. The balance of trade between imports and exports changed significantly, however, as China expanded its exports from \$43 million to \$57 million and cut back its imports from \$83 million to \$68 million. China thus reduced the deficit in its trade with Italy and at the same time enlarged the market for some of its traditional exports by nearly doubling its sales of raw silk to Italy to about \$25 million. Chemical fertilizers accounted for a major portion of China's imports from Italy, but total purchases from Italy declined as did imports from all the remaining countries in Western Europe.

*Canada and Australia*

16. China narrowed slightly the huge deficits in trade with its major grain suppliers, with a small decline in the value of grain imports and increases in its exports to both Canada and Australia. Trade with Canada fell in 1969 as China cut back its imports from \$160 million to about \$132 million and increased its exports from \$25 million to \$30 million. Imports of Canadian wheat fell from 2.2 million tons to about 1.8 million tons. At the same time, China increased its purchases of Australian wheat from 1.6 million tons to about 1.9 million tons. China's imports from

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Australia thus rose from \$115 million to \$125 million and its exports rose from \$32 million to \$40 million.

**Balance of Trade**

17. China incurred another enormous deficit in trade with the Industrial West, but still succeeded in reducing it from \$630 million to about \$550 million. Trade with Hong Kong, Singapore, and less developed countries as well as remittances from overseas Chinese probably provided sufficient hard currency earnings to offset the deficit in trade with the developed countries and to produce a small surplus in China's balance of trade with the Free World as a whole. Exports to Hong Kong rose from \$310 million in 1968 to \$326 million in 1969, while imports from Hong Kong were only \$1.4 million in 1968 and \$1.2 million in 1969.

**Prospects**

18. The early returns from China's trading partners, contract information, and other current reporting -- especially about the Spring Canton Fair -- suggest that trade with the Industrial West in 1970 will rise above \$2 billion for the first time, increasing perhaps 10% above the 1969 level. If China continues to expand its exports while moderating the upward thrust in its imports that occurred in the early months of 1970, imports probably will rise somewhat more than 10% and exports about 10%.

19. During the early months of 1970, China's trade with the Industrial West displayed a striking upsurge of more than 50% in China's imports and a moderate increase of about 10% in its exports in comparison with the same period in 1969, as indicated by the following tabulation of unadjusted trade returns from five major trading partners:

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Million US \$						
	<u>January-March 1969</u>			<u>January-March 1970</u>		
	<u>Turn-</u> <u>over</u>	<u>Im-</u> <u>ports</u>	<u>Ex-</u> <u>ports</u>	<u>Turn-</u> <u>over</u>	<u>Im-</u> <u>ports</u>	<u>Ex-</u> <u>ports</u>
<i>Total</i>	294	162	132	401	255	146
West Germany	68	48	20	67	43	24
United Kingdom	54	32	22	59	38	21
France	25	8	17	44	28	16
Italy	32	17	15	31	12	19
Japan	115	57	58	200	134	66

20. Much of the increase in imports from Japan is the result of continuing deliveries of steel and chemicals, part of the large contracts signed in 1969. The carryover of deliveries of French wheat and continuing large purchases of nonferrous metals and industrial diamonds from the United Kingdom were largely responsible for the increase in imports from Western Europe. In contrast, China's imports from West Germany and Italy dropped in early 1970 below the level of the comparable period in 1969, while its exports to these two countries rose slightly.

21. China's grain purchases are scheduled to increase more than 10% from \$260 million (4.0 million tons) to about \$290 million (4.6 million tons). Partial returns for early 1970 indicate that deliveries are being made on schedule and suggest that the contracts will be fulfilled. China's grain purchases in 1969 were originally scheduled at 4.5 million tons, but deliveries of both Australian and French wheat fell behind schedule. In September 1969, after Canada had fulfilled its contract for 1.6 million tons, China signed another contract for 2.3 million tons to be delivered by September 1970. Part of this contract was completed during the fourth quarter of 1969, but about 2 million tons remained to be delivered in 1970. China received only 330,000 tons of French wheat in 1969 out of the scheduled 800,000 tons. Deliveries of large quantities of wheat from France were continuing in early 1970 but no new contract has been announced. By December 1969, Australia had completed delivery of about 1.9 million tons of the 2.2 million tons to be delivered by March 1970.

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In September 1969, another Sino-Australian agreement had been concluded which called for the delivery of 2.2 million tons by October 1970.

22. In regard to purchases of chemical fertilizer, representatives of Japanese producers and Nitrex, a West European cartel, began negotiating with the Chinese during the 1970 Spring Canton Fair. In 1969, China signed a contract with Japan in May and with Nitrex in July. Nearly all of the fertilizer from Japan in 1969 was delivered during the second half of the year. Deliveries from Western Europe, however, were distributed fairly evenly throughout the year because some of the early deliveries were part of a carryover from the previous year and some later ones resulted from the signing of new contracts. A similar pattern is probably taking place in 1970.

[REDACTED] Japanese producers will probably be obliged to offer comparable price concessions to compete with the West European suppliers. China apparently received sufficient chemical fertilizer in early 1970 to provide for spring planting needs before any new contracts were signed.

23. China's purchases of steel from the Industrial West in 1970 may rise slightly over the \$245 million (1.5 million tons) purchased in 1969. Japan's share of China's steel imports probably will continue to rise while the West European share will decline again in both absolute and relative terms.

24. Purchases of machinery and equipment from the Industrial West, which declined from \$135 million in 1968 to \$110 million in 1969, may rise substantially in 1970 if contracts for imports of trucks from Japan and several other suppliers are fulfilled. Certain items such as machine tools and bearings will probably also continue to rise. Japan's competitive advantage will probably lead to larger purchases of machinery and equipment from Japan and perhaps a further drop in purchases from Western Europe. There is still no evidence of a revival of large-scale imports of whole plants by China, although there have been occasional references to renewed interest.

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25. Preliminary reports of the 1970 Spring Canton Fair provide further evidence of the recovery of China's economy from the excesses of the Cultural Revolution. There was a further reduction in the intensity of political propaganda below the level of recent fairs and businesslike behavior on the part of the Chinese trade representatives. Japanese traders reported that for the Spring Fair a record volume of \$131 million in trade contracts was concluded.

26. Some uncertainty in prospects for Sino-Japanese trade has been created by Chou En-lai's announcement that China would exclude from trade any Japanese firms with interests in Taiwan or South Korea, subsidiaries of US firms, and firms supporting the US military effort in Southeast Asia. This probably will not affect overall Sino-Japanese trade but may influence the shares of individual Japanese firms in trade with China. Negotiations for China's fertilizer imports from Japan have been more prolonged in 1970 than in 1969, and contracts for steel imports do not yet indicate any significant changes in Chinese purchases. On the other hand, Japan has already obtained large new contracts for transport equipment in 1970 and its competitive advantage over Western Europe may enable the Japanese to increase their sales of steel and fertilizer further in 1970. Thus trade with Japan still is expected to rise more than 10% in 1970, in part because of the exceptionally large volume of Chinese imports from Japan in the first quarter of 1970, which was bolstered by a carryover of the large contracts for steel and chemicals originally scheduled to be delivered late last year.

27. Trade with Western Europe probably will rise only moderately in 1970 as higher imports of French wheat offset some reductions in China's purchases of steel and machinery from its West European suppliers. China's purchases of non-ferrous metals and industrial diamonds from the United Kingdom continued to rise sharply in the early months of 1970, but such imports can change quickly and may not hold up for the entire year. No further contracts for purchases of French wheat have been announced, although purchases from Canada and Australia are scheduled to rise in 1970. Trade with major suppliers of goods intended as inputs in China's industry, such as West Germany and Italy,

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declined in early 1970, while Japan became increasingly dominant as a supplier of steel, machinery, and chemicals.

### Conclusions

28. China's trade with the Industrial West in 1969 recovered from the temporary downturn in 1968 that occurred in the aftermath of the Cultural Revolution. Total trade in 1969 almost equaled the level of 1967, with exports higher and imports lower than in 1967. China, however, depends on export earnings from other areas, especially Hong Kong and Singapore, and remittances from overseas Chinese to offset the huge deficit it incurs to import essential goods from the Industrial West.

29. The gradual restoration of order in the domestic economy since mid-1968 has permitted an expansion of exports. At the same time, China maintained a tight rein on imports in 1969, holding them to the 1968 level. The most significant change in the composition of imports resulted from China's intensified purchasing of nonferrous metals, in part for stockpiling purposes. Imports of machinery and equipment continued to decline, to \$110 million in 1969 from \$135 million in 1968 and \$230 million in 1967.

30. China's foodstuff exports to the Industrial West dropped in 1969 as Japan curtailed its purchases of Chinese rice. Other foodstuff exports, especially meat and fish, rose moderately as China increased its penetration into European markets. However, crude animal materials, textiles, and other agricultural products provided the main stimulus for the growth of China's exports to the Industrial West.

31. Although China's total imports remained at the 1968 level in 1969, purchases from Japan grew by 20% as a result of Japan's comparative cost advantage over its West European competitors. Trade in 1969 strengthened Japan's position as China's largest trading partner and most important supplier of industrial goods. The United Kingdom was the only other major trading partner with a substantial gain in trade, benefiting from an

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improved political environment and China's strong investment in industrial diamonds and nonferrous metals.

32. Early trade returns for 1970 indicate a further rise in China's exports of traditional commodities and a renewal of growth in imports. This information plus contract data and other current reporting suggests that China's trade with the Industrial West is likely to exceed \$2 billion for the first time. Purchases from Japan more than doubled in the first three months of 1970 over the first quarter of 1969, in part because of imports of steel, chemicals, and other commodities originally scheduled for 1969 delivery. Partial returns from several West European trading partners indicate a continuing rise in China's purchases of nonferrous metals, but probably a further decline in imports of machinery and equipment from Western Europe. The scheduled increases in China's imports of wheat from 4.0 million tons in 1969 to 4.6 million tons in 1970 will probably be attained if deliveries proceed at the current rate for the rest of the year.

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Table 1  
Communist China's Trade with the Industrial West a/

	Million US \$								
	1967			1968			1969 <u>b/</u>		
	Turnover	Imports	Exports	Turnover	Imports	Exports	Turnover	Imports	Exports
<i>Total</i>	1,980	1,345	635	1,870	1,250	620	1,940	1,245	695
Western Europe	1,030	720	310	960	625	335	950	570	380
Of which:									
West Germany	296	231	65	272	196	76	280	202	78
United Kingdom	203	135	68	141	70	71	210	131	79
France	142	102	40	170	119	51	115	50	65
Italy	138	89	49	126	83	43	125	68	57
Netherlands	39	16	23	57	33	24	66	42	24
Sweden	63	49	14	50	34	16	34	18	16
Switzerland	40	25	15	38	23	15	36	17	19
Japan	569	303	266	567	345	222	654	415	239
Canada	130	105	25	185	160	25	162	132	30
Australia	232	203	29	147	115	32	165	125	40

a. Data for individual countries are rounded to the nearest \$1 million. All other data are rounded to the nearest \$5 million. Because of rounding, components may not add to the totals shown. Estimates are based on reasonably complete statistics and are adjusted to show Chinese imports c.i.f. and exports f.o.b.

b. Preliminary estimates.



Table 2

Communist China's Imports  
from the Industrial West a/

	Million US \$		
	<u>1967</u>	<u>1968</u>	<u>1969 <sup>b/</sup></u>
<i>Total</i>	<i>1,345</i>	<i>1,250</i>	<i>1,245</i>
Foodstuffs	295	305	260
Crude materials, fuels, and edible oils	30	55	35
Chemicals	275	280	280
Of which:			
Fertilizer	200	200	200
Manufactures	725	585	650
Of which:			
Textile yarns and fabric	40	30	30
Iron and steel	295	240	245
Nonferrous metals	75	115	195
Machinery and equipment	230	135	110
Other	30	25	20

*a. Data are rounded to the nearest \$5 million. Because of rounding, components may not add to the totals shown. Estimates are based on incomplete statistics and are adjusted to show Chinese imports c.i.f.*

*b. Preliminary estimates.*

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Table 3  
Communist China's Exports  
to the Industrial West a/

	Million US \$		
	1967	1968	1969 <u>b/</u>
<b>Total</b>	<b>635</b>	<b>620</b>	<b>695</b>
<b>Foodstuffs</b>	<b>140</b>	<b>135</b>	<b>115</b>
Of which:			
Animals, meat, and fish	50	30	60
Grain	45	30	15
Fruit and vegetables	40	40	40
<b>Crude materials, fuels, and edible oils</b>	<b>265</b>	<b>280</b>	<b>340</b>
Of which:			
Oilseeds	85	80	75
Textile fibers	85	75	110
Crude animal materials	55	60	80
<b>Chemicals</b>	<b>40</b>	<b>35</b>	<b>40</b>
<b>Manufactures</b>	<b>155</b>	<b>170</b>	<b>185</b>
Of which:			
Textile yarn and fabric	65	75	95
Clothing	15	20	30
Iron and steel	10	Negl.	Negl.
Nonferrous metals	20	20	25
<b>Other</b>	<b>35</b>	<b>0</b>	<b>10</b>

a. Data are rounded to the nearest \$5 million. Because of rounding, components may not add to the totals shown. Estimates are based on incomplete statistics and are adjusted to show China's exports f.o.b.

b. Preliminary estimates.